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NEWS RELEASE

FROM:

Norman D. Butts

FOR IMMEDIATE RELEASE

DATE: May 1, 2001

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County Inspector General Receives Group's Highest Rating.

The National Association of Local Government Auditors (NALGA) has issued its highest rating of "unqualified opinion" to the Montgomery County Office of Inspector General after an external quality control evaluation known as a peer review.

The Montgomery County Inspector General is one of the few local government audit and investigative functions in the D.C. metropolitan area to successfully complete a peer review according to the NALGA. The NALGA peer review covered the period July 1, 1998 through December 31, 2000.

"The auditors found that we were in full compliance with government auditing standards and that our new audit and investigative approaches were suitably designed and provided reasonable assurance that government auditing standards were followed during the course of our audits and investigations," said Inspector General Norman D. Butts

The Office of Inspector General is a legislative branch agency of Montgomery County government. The objectives of the office are to review the efficiency and effectiveness of programs and operations; prevent and detect fraud, waste and abuse in government activities; and propose ways to increase the fiscal, legal, and ethical accountability of County government departments and County-funded agencies.

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NALGA Peer Review Committee
1220 SW Fifth Ave., Room 120
Portland, OR 97204
(503) 823-3542

National Association of Local Government Auditors

April 26, 2001

Norman D. Butts
Inspector General
51 Monroe Street, Suite 802
Rockville, Maryland 20850

Dear Mr. Butts,

We have completed an external quality control review of the Montgomery County, Maryland Office of the Inspector General for audits issued during the period July 1, 1998 through December 31, 2000. In conducting our review, we followed the standards and guidelines contained in the N.A.L.G.A. Quality Control Review Guide published in May 1995 by the National Association of Local Government Auditors.

As prescribed by the N.A.L.G.A. Guide, we reviewed the internal quality control system of the Montgomery County, Maryland Office of the Inspector General and test a sample of audits conducted by your office for compliance with *Government Auditing Standards, 1994 Revision*, issued by the Comptroller General of the United States. Due to variance in individual performance and judgment, compliance does not imply adherence to standards in every case, but does imply adherence in most situations.

We have concluded from our review that your system of internal quality control was suitably designed and provided reasonable assurance that government auditing standards have been adopted and were followed in your audit work. We have also concluded from the sample of audits tested that established quality controls were working effectively and that audits were conducted in conformance with applicable standards during the period under review.

It is our opinion, therefore, that the Montgomery County, Maryland Office of the Inspector General was in compliance with *Government Auditing Standards* during the period July 1, 1998 through December 31, 2000. We have prepared and enclosed herewith a separate letter offering suggestions for further strengthening your internal quality controls.

Sincerely,

Original signed by

Alan D. Ash, CIA, CFE, CGFM
City Auditor
Gainesville, Florida

Original signed by

Taylor Dudley
Assistant City Auditor
Austin, Texas



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Norman D. Butts
Inspector General
51 Monroe Street, Suite 802
Rockville, Maryland 20850

Dear Mr. Butts,

We have completed an external quality control review of the Montgomery County, Maryland Office of the Inspector General (OIG) for audits issued during the period July 1, 1998 through December 31, 2000. We have issued a report stating our opinion that the Montgomery County, Maryland Office of the Inspector General was in compliance with government auditing standards. We are issuing this companion letter offering additional observations and some suggestions, which, in our opinion, will further increase the value of the Montgomery County, Maryland Office of the Inspector General. This letter should be read in conjunction with our opinion report.

First, the following are some areas where, in our opinion, your office excelled:

- The Montgomery County, Maryland Office of the Inspector General has attracted and retained a very professional and competent staff with complementary skills.
- The Office of the Inspector General has done a commendable job in preparing a 2000 Annual Report which conveys the activities, work products, status of active projects and benchmark information in a clear, concise and understandable manner.
- The Office of the Inspector General has incorporated as part of the Quality Control System a Management Controls Assessment to facilitate a review of the control environment. The assessment is a comprehensive tool used to assess an agency's management control "health".
- The inclusion of the Quality Assurance Review checklist in the quality control system is a good mechanism for ensuring compliance with *Government Auditing Standards*.
- OIG investigations are conducted in accordance with the President's Council on Integrity and Efficiency (PCIE)/Executive Council on Integrity and Efficiency (ECIE) Quality Standards for Investigations related to collection of evidence, and recording and referencing interviews with supporting facts and conclusions.
- The "Accountability Alerts" prepared and distributed by OIG appear to be an effective and efficient mechanism for leveraging use of audit resources and promoting effective communications between OIG and management.

Additionally, the Montgomery County, Maryland County Council is to be commended for recognizing the value of having and supporting an independent audit office.

The above are only some of the many qualities and activities of the Montgomery County, Maryland Office of the Inspector General that impressed us during the review. We offer the following comments and suggestions to support your efforts to continuously improve your operations.

Revisions to Montgomery County Code

Montgomery County Code Chapter 2, Article XIII, Section 2-151(f) Budget, contains a provision which states “By 4 months after the Inspector General is appointed, the Inspector General must submit to the Executive and Council a projected budget for the Office of the Inspector General for the entire 4-year term”. The Code also provides in Section 2-151(i) Work Plan, that the Inspector General direct the activities of the office subject to a 4-year workplan adopted 6 months after being appointed. We believe the requirement to prepare a 4-year projected budget and workplan places an undue burden on OIG to project future organizational financial and program circumstances with a reasonable degree of accuracy. A difficult task at best. Consideration should be given to replacing the provision for a 4-year budget and workplan with a requirement for a strategic plan. The strategic plan should outline the major exposure areas, your plans to audit those areas, and other general objectives which reflect your vision for the OIG and expectations of the citizens, County Council and management.

OIG Staff Term Limitations

Montgomery County Code contains a provision which places term limits on OIG staff. While a term limit on the Inspector General position is a generally accepted provision of legislation and guidelines authorizing similar functions, the imposition of term limits on remaining OIG staff should be removed. We believe term limits on staff places unnecessary pressure on OIG audit staff and may result in an impairment to independence. In addition, staff term limits may result in difficulty in hiring and retaining qualified professional staff, loss of institutional knowledge as previous staff members are replaced, and greater recruitment and training costs. While there may be some merit to a rotation of professional staff from the perspective of a “fresh set of eyes” on the organization, we believe the long term benefit gained from the institutional knowledge and relationships developed far outweigh the benefits of staff term limitations.

Audit Resources and Coverage

The current staffing level of the OIG consists of the Inspector General, Deputy Inspector General, Assistant Inspector General and Office Manager. Serious consideration should be given to expanding professional audit resources available to the OIG as the current staffing level appears to be inadequate given the universe of audit coverage. When preparing the four year work plan and related annual workplans, consideration should be given to expanding the universe of audit coverage by including more limited scope audits. Given the current level of audit resources, an increase in audit coverage could be accomplished by assigning individual auditors to smaller scope audits rather than involving the entire audit staff in fewer, more comprehensive audits and investigations. Expanding the number of limited scope audits should be of greater assistance to the County Council and County Executive in formulating their policy and budgetary decisions.

Follow-Ups

We noted that significant effort was placed in conducting the follow-up review on your audit of Solid Waste Services. As an alternative to devoting considerable audit resources to follow-up audits, consideration should be given to obtaining the agreement of the County Executive that implementation of agreed-upon corrective actions to your audit recommendations is the responsibility of management with the oversight of the Management and Fiscal Policy Committee. An option to explore is a system whereby OIG notifies management of outstanding recommendations on a periodic basis. Management determines

the status of implementation of prior audit recommendations and provides a written report to OIG. The Inspector General reviews and tests management's representations and provides a periodic report to the Management and Fiscal Policy Committee.

The OIG follow-up data base currently in development which includes audit findings, recommendations and status should be of great assistance to the County Council, OIG, and management in tracking implementation status.

General Standard on Independence

The OIG has developed a procedure and standard form to assist in ensuring and documenting compliance with the independence requirements of *Government Auditing Standards*. Audit staff routinely complete the independence statement for audits performed and the IG signs the statement attesting that the auditors assigned have no personal, external or organizational impairments. The independence certificate could be improved by a revision providing for the Inspector General's independence as a reviewer/supervisor of audit work.

Audit and Investigative Procedures Manual (AIPM)

The Audit and Investigative Procedures Manual (AIPM) provides guidance and procedures for both audits and investigations. While there may be some overlap in purpose, scope and objectives, standards, policies and procedures may vary significantly for audits and investigations. We believe separate procedure manuals for each type of activity would be beneficial in providing clear guidance. If separate procedure manuals are developed, the Audit Procedures Manual should include specific policy statements regarding compliance with provisions of *Government Auditing Standards*. The Foreword in the current version of the Audit and Investigative Procedures Manual (AIPM) includes a statement adopting *Government Auditing Standards* by reference. The current wording includes language which includes several different OIG work products (audit, investigation, examination, inspection, evaluation, analysis, review or memorandum) and a qualifying statement ("to the extent practicable"). This language is appropriate for certain work products, however for audits performed in accordance with *Government Auditing Standards*, audit work should be in full compliance with the standards. In addition, some of the procedures currently included in the AIPM are not consistent with similar statements provided for in *GAS*.

The current AIPM does not provide for follow-up on significant findings from previous audits or assessing the reliability of previous audit work. *Government Auditing Standards* require that the audit agency's Quality Control System provide for follow-up and for assessing the reliability of previous audit work. While OIG maintains a database of prior audit findings, the current AIPM does not provide guidance for follow-up on prior audit findings.

Investigative Policies and Procedures

The Foreword to the OIG AIPM adopts by reference the Quality Standards for Investigations promulgated by the President's Council on Integrity and Efficiency (PCIE) and the Executive Council on Integrity and Efficiency (ECIE). We noted the following in our review of OIG policies, procedures and practices related to Investigations:

- PCIE recommends a continuous career development program be established and individual training profiles be developed. The OIG has identified and provided training as required however a career development program has not been established nor has a training profile been established to guide individual training plans.

- PCIE/ECIE Quality Standards for Investigations require investigations to be conducted and reported with due diligence and in a timely manner. A written report was issued at the conclusion of several reports however for the majority of investigations conducted a report was not issued and, in several instances, investigative cases have been on hold for at least one year. Lack of OIG resources appears to be the primary cause of deviations from this standard.
- PCIE/ECIE Quality Standards for Investigations recommend that two investigators be present when conducting interviews in situations that are potentially hazardous or compromising. Again, lack of OIG resources is the primary cause of any deviations from this standard.
- PCIE/ECIE Quality Standards for Investigations recommend that policies, procedures, and instructions for handling and processing complaints should be in place. The agency should formally adopt written policies and procedures that reflect the current (acceptable) practices to ensure that basic information is recorded and tracked to final resolution. The agency should also formalize guidelines for making a determination to initiate an investigation or to pursue another course of action. Written directives for file management should specify procedures for at least the following: assignment of case numbers, file organization, filing of exhibits and storing evidence, distribution of reports, file access record and record retention.

You are to be commended for your efforts in developing and implementing a system of quality control that complies with *Government Auditing Standards*, producing audits and investigations providing value to the citizens, County Council and County management.

We hope that the suggestions contained in this report assist you in continuing the professional work we observed during the review.

We extend our thanks to you, your staff and County government for the hospitality and cooperation extended to us during our short visit to Montgomery County.

Sincerely,

Original signed by
 Alan D. Ash, CIA, CFE, CGFM
 City Auditor
 City of Gainesville, Florida

Original signed by
 Taylor Dudley
 Assistant City Auditor
 City of Austin, Texas



OFFICE OF INSPECTOR GENERAL

Norman D. Butts
Inspector General

April 26, 2001

Alan D. Ash
Taylor Dudley
N.A.L.G.A. Quality Control Review Team

Re: Report Of The External Quality Control Review

Dear Sirs,

Thank you for being part of the first External Quality Control Review of the Montgomery County, Maryland Office of Inspector General. We are pleased that your review concluded that our internal quality control system is suitably designed to comply with *Government Auditing Standards*. The Office of Inspector General has been in existence just a short period of time and it is reassuring to know the procedures that have been instituted provide a sound professional basis for our auditing and investigative work.

We appreciate both your positive comments and the suggestions you have made to improve the quality of policies, procedures, and reports. We agree with each of the suggestions and will work to implement them. Our specific responses to your comments and suggestions are as follows:

Revisions To Montgomery County Code

We concur. The development of a four-year projected budget is difficult given the uncertainty of organizational financial and program needs. The annual budget approval process provides adequate planning for the future needs of the office. Likewise, a strategic based workplan would provide more flexibility to the office in performing audit and investigative work as risk analysis changes.

This is an issue for County Council action and we will forward it for their consideration.

OIG Staff Term Limitations

We concur. We remain concerned that term limitations may adversely effect recruiting efforts. Further, there is a benefit to having continuity among the professional staff as the Inspector General position changes.

This is an issue for County Council action and we will forward it for their consideration.

Audit Resources and Coverage

We concur. We are striving to improve our audit scoping activities to define more narrowly our projects.

Follow-ups

We concur. We appreciate the suggestions and have already implemented several of the recommendations. We will continue to refine our follow-up database.

General Standard on Independence

We concur. We will amend our independence certification policy and procedures as recommended.

Audit and Investigative Procedures Manual (AIPM)

We concur. We will develop separate manuals for audits and investigative and other work in order to clarify the professional standards being followed.

Investigative Policies and Procedures

We concur. We strive to follow PCIE/ECIE standards for investigative work. Specifically, we will formalize our training requirements to enhance career development opportunities for staff. We will provide better documentation regarding the decision-making process pertaining to complaints. As more resources become available, response time to complaints will improve. As noted, limited resources dictate complaint response time and investigative procedures followed. For example, we do have two investigators present at all critical interviews but resources prohibit that practice for 'routine' interviews.

We found the External Quality Control Review performed by you to be a positive and constructive experience and one that will help us continue to improve the quality of our work. We appreciate the time you took away from your own offices to review our office and the professionalism with which you carried out your responsibilities as peer reviewers. Thank you.

Sincerely,

Original signed by

Norman D. Butts
Inspector General